

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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April 9, 2009

Mr. Vincent Canales, Jr.  
Finance Director  
Stanislaus Council of Governments  
900 H Street, Suite D  
Modesto, CA 95354

Re: Stanislaus Council of Governments  
Audit of Indirect Cost Allocation Plan for FY 2008/2009  
File No: P1190-0707

Dear Mr. Canales:

We have audited the Stanislaus Council of Governments' (StanCOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. StanCOG management is responsible for the fair presentation of the ICAP. StanCOG proposed an indirect cost rate of 46.23 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of StanCOG. Therefore, we did not audit and are not expressing an opinion on StanCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by StanCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of StanCOG in conformity with generally accepted accounting principles.

*"Caltrans improves mobility across California"*

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of StanCOG's Overall Work Program for FY 2008/09, a review of StanCOG's single audit report for the FY ended June 30, 2007, inquiries of StanCOG personnel, reliance placed on the single audit report for the FY ended June 30, 2007, and prior audit field work performed by the Department in May 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into account the agreement to the findings of Mr. Vincent Canales, Jr., Chief Financial Officer, during a teleconference that took place on April 1, 2009. Our findings and recommendations, a summary of StanCOG's response and our analysis of the response are detailed below.

## **AUDIT RESULTS**

Based on audit work performed, StanCOG's ICAP for the FY ended June 30, 2009, is presented in accordance with 2 CFR 225 and LPP 04-10. The approved indirect cost rate is 46.23 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

StanCOG requested a provisional rate of 46.23 percent on November 26, 2008, for FY 2008/09. Audits and Investigations approved the provisional rate on December 3, 2008.

### **Audit Findings**

#### **Finding 1**

StanCOG does not have an up-to-date procedures manual that reflects its current accounting practices. This is a repeated finding that was initially communicated by our office to StanCOG on December 1, 2005, again on August 8, 2007, and most recently on March 11, 2008.

A key element of an internal control system is the documentation of each of the specific policies and procedures that relate to specific controls for each of the transaction classes and account balances. StanCOG's accounting policy and procedures manual needs to be updated so that each internal control system is properly documented. The lack of a current accounting manual increases the risk of inconsistent application of proper procedures and increases the probability that accounting errors will occur. Having current policy and procedures also protects StanCOG against the sudden departure of knowledgeable personnel.

**Recommendation:**

We recommend that StanCOG revise its procedure manual so that current accounting practices are accurately reflected. Failure to revise the procedures manual to current practices may jeopardize future ICAP approvals.

**Auditee Response:**

StanCOG agrees that, from a best practices standpoint, having an up-to-date accounting procedures manual is the ideal situation. StanCOG still intends to address this issue in the future.

**Auditor Analysis:**

StanCOG agrees with the finding. The finding will stand.

This report is intended solely for the information of StanCOG, Department Management, the California Transportation Commission, and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting, and FHWA. If you have any questions, please contact Lisa Moreno, Auditor, at (916) 323-7885, or Amada Maenpaa, Audit Manager, at (916) 323-7868.



MARYANN CAMPBELL-SMITH  
Chief, External Audits

**Attachments**

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- ✓ Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- ✓ Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- ✓ Tom Marez, Accounting Administrator 1, Local Program Accounting Branch, Division of Accounting
- ✓ Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- ✓ Sinaren Pheng, Local Assistance Engineer, District 10
- ✓ Consuelo Medina, Associate Transportation Planner, District 10
- ✓ P1190-0707

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## Stanislaus Council of Governments

### Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Stanislaus Council of Governments and approved by the Department.

#### SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	46.23%	All Programs

\* Base: Total Direct Salaries and Wages plus fringe benefits

#### SECTION II: General Provisions

##### **A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

##### **B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

##### **C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate of Calculation:**

FY 08/09 Budgeted Indirect Costs	\$ 666,741	<See indirect cost calculation Page 5>
Carry Forward from FY 06/07	<u>(69,539)</u>	<See Audited Financial Report Page 35>
Adjusted indirect Costs for FY 2008/09	\$ 597,202	
FY 2008/09 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 1,291,737	<See indirect cost calculation Page 5>
FY 2008/09 Indirect Cost Rate	46.23%	

**CERTIFICATION OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Stanislaus Council of Governments


Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Vincent J. Harris

Title: Executive Director

Date of Execution: August 6, 2008

Signature: 

Prepared by:

Name of Official: Vincent Canales, Jr.

Title: Finance Director

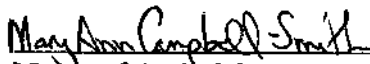
Telephone No.: (209) 525-4633

#### INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

  
Signature

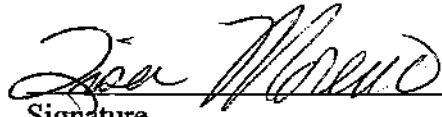
Reviewed and Approved by:

  
Name of Audit Manager

Title: Chief, External Audits

Date: 4/9/09

Phone Number: 916-323-7105

  
Signature

Reviewed and Approved by:

  
Name of Auditor

Title: Associate Management Auditor

Date: 4/1/09

Phone Number: 916-323-7885



**STANISLAUS COUNCIL OF GOVERNMENTS  
PROJECTED 2008/09 BUDGET  
FOR THE INDIRECT COST PLAN**

	DIRECT COSTS	Reference	INDIRECT COSTS	UNALLOWABLE COSTS	TOTAL BUDGET	Reference
SALARIES	928,017		238,171	10,669	1,176,857	<Line-item Budget Adopted 06-11-08 Page 7>
FRINGE BENEFITS	363,720		112,788	4,087	480,595	
<b>TOTAL SALARIES AND BENEFITS</b>	<u>1,291,737</u>	<To Page 4 & Page 2>	<u>350,959</u>	<u>14,756</u>	<u>1,657,452</u>	
<b>CONTRACTS</b>	<u>1,954,979</u>		<u>60,500</u>	<u>0</u>	<u>2,015,479</u>	
<b>OTHER COSTS:</b>						
ADMINISTRATIVE SERVICES			8,740		8,740	
COMMUNICATIONS			11,142		11,142	
CONFERENCES, SEMINARS & TRAVEL	28,300		4,000	6,000	38,300	
COUNTY DEPARTMENT COSTS ALLOCATED			13,250		13,250	
DATA PROCESSING			26,040		26,040	
EQUIPMENT MAINTENANCE			1,000		1,000	
EQUIPMENT PURCHASE *	7,050		18,150		25,200	
EQUIPMENT RENTS & LEASES			11,570		11,570	
FIXED ASSETS **	12,500		0		12,500	
INSURANCE			20,000		20,000	
MEMBERSHIPS			0	9,500	9,500	
OFFICE EXPENSE	3,300		24,200		27,500	
POSTAGE/MAIL SERVICES			4,380		4,380	
PRINTING	3,350		5,160	3,650	12,160	
PUBLICATIONS/LEGAL NOTICES	8,550		1,000		9,550	
STRUCTURES & GROUNDS MAINTENANCE			1,050	960	2,010	
STRUCTURES & GROUNDS RENTS & LEASES			89,200		89,200	
UTILITIES			13,000		13,000	
CONTINGENCIES				50,000	50,000	
EXIGENCIES				15,000	15,000	
<b>SUBTOTAL OTHER COSTS</b>	<u>63,050</u>		<u>251,882</u>	<u>85,110</u>	<u>400,042</u>	
<b>TOTAL BUDGET</b>	<u>3,309,766</u>		<u>663,341</u>	<u>99,866</u>	<u>4,072,973</u>	V
<b>DEPRECIATION</b>			3,400			
<b>TOTAL INDIRECT COST</b>			666,741	<To Page 4 & Page 2>		

\* Purchases of less than \$5,000 each

\*\* Purchases of \$5,000 or greater each

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Total budget from above	4,072,973
Audited Financial Statements FY 06-07 Page 35	(69,539)
Reconciles to line-item budget Schedule 1 (Page 7)	<u>4,003,434</u>



STANISLAUS COUNCIL OF GOVERNMENTS  
GENERAL FUND - STATEMENT OF EXPENDITURES  
ALLOCATION OF DIRECT AND INDIRECT COSTS  
FOR THE YEAR ENDING JUNE 30, 2007

Line Item	Actual Direct	Ref	Actual Indirect	Ref	Unallowed	Ref	Total Actual	Reference
<b>EXPENDITURES</b>								
Salaries and benefits								
Salaries	576,637.00		163,232.00		4,323.00		744,192.00	Audited Financial Report FY 06-07 Page 34
Benefits	196,057.00		55,499.00		1,470.00		253,026.00	
Total Salaries and Benefits	772,694.00	<To Page 4>	218,731.00		5,793.00	(1)	997,218.00	
Services and supplies								
Office expense	2,738.00		54,627.00				57,365.00	
Communications			8,090.00				8,090.00	
Memberships			0.00		9,113.00	(2)	9,113.00	
Rent - equipment			13,589.00				13,589.00	
Transportation, travel & training			3,860.00		23,440.00	(3)	27,300.00	
Departmental cost allocation			13,801.00				13,801.00	
Publication & legal notices	6,065.00		0.00				6,065.00	
Printing	12,856.00		598.00				13,454.00	
Insurance			15,315.00				15,315.00	
Rents-structures & grounds			76,722.00				76,722.00	
Maintenance - equipment			0.00				0.00	
Data processing			27,471.00				27,471.00	
Total Services and Supplies	21,659.00		214,073.00		32,553.00		268,285.00	
Professional and special services	1,290,803.00		28,630.00				1,319,433.00	
Operating Transfers - Out					(16,094.00)	(4)	(16,094.00)	
<b>TOTAL EXPENDITURES</b>	<b>2,085,156.00</b>		<b>461,434.00</b>	<To Page 4>	<b>54,440.00</b>		<b>2,601,030.00</b>	V

- (1) Legislative review with Senators - Washington DC trip
- (2) Professional dues NARC and CalCOG
- (3) Travel expenses
- (4) StanCOG contribution to SR 132 capital project construction

**STANISLAUS COUNCIL OF GOVERNMENTS**  
**LINE ITEM BUDGET**  
**FY 2008/09**  
**AS ADOPTED JUNE 11, 2008**

**SCHEDULE #1**

Acct	Description	Final Budget FY 2007/08	As proposed FY 2008/09	Change	Notes
<b>50000</b>	<b>SALARIES AND BENEFITS</b>	<b>1,189,094</b>	<b>1,657,452</b>	<b>468,358</b>	Requested for increase in staff and cola
<b>60000/</b>	<b>SERVICES AND SUPPLIES</b>				
<b>70000</b>	Administrative Services	5,160	8,740	3,580	
	Communications	11,488	11,142	(346)	
	Conferences, Seminars & Travel	44,892	38,300	(6,592)	
	County Departmental Costs Allocated	9,055	13,250	4,195	
	Data Processing Services	27,275	26,040	(1,235)	
	Equipment Maintenance	200	1,000	800	
	Equipment Purchase	15,050	25,200	10,150	Computer replacement & purchase of additional computers
	Equipment Rents and Leases	13,670	11,570	(2,100)	
	Insurance	20,000	20,000	0	
	Memberships	9,373	9,500	127	
	Office Expense	24,500	27,500	3,000	
	Postage/Mail Services	4,405	4,380	(25)	
	Printing	13,100	12,160	(940)	
	Publications/Legal Notices	7,648	9,550	1,902	
	Structures and Grounds - Maintenance	5,195	2,010	(3,185)	
	Structures and Grounds - Rents and Leases	77,480	89,200	11,720	Building lease, storage & parking cost increases
	Utilities	12,000	13,000	1,000	
	<b>TOTAL SERVICES AND SUPPLIES</b>	<b>300,491</b>	<b>322,542</b>	<b>22,051</b>	
<b>81000</b>	<b>EQUIPMENT - FIXED ASSETS</b>	<b>17,000</b>	<b>0</b>	<b>(17,000)</b>	Phone system purchased in FY 07-08
		<b>12,500</b>	<b>12,500</b>	<b>0</b>	1 Seat license for traffic model
<b>83280</b>	<b>CONTRACTS</b>				
	Area wide Ridesharing Services	160,000	165,000	5,000	
	Blueprint Grant	257,055		(257,055)	Consultant budgeted in 07-08, but will carry over into 08-09
	Carl Anderson Air Quality Services - SIP Amend	13,668		(13,668)	Air quality state implementation plan completed in 07-08
	Congestion Management Program Update	0	60,000	60,000	Originally programmed in 07-08, but moved to 08-09
	Coordinated Transportation Plan	58,873		(58,873)	Completed in 07-08
	Disadvantaged Business Enterprise Consultant	2,500	2,500	0	
	Employee Classification Study	10,000		(10,000)	Activity anticipated to be carried out & completed in 07-08
	Financial Audit & related svcs.	28,500	30,500	2,000	
	Highway J59 Concept Study	0	6,000	6,000	
	Legal Counsel	105,816	50,500	(55,316)	Anticipated that less legal services will be required in 08-09
	Nonmotorized Master Plan	153,537		(153,537)	Encumbered in 07-08, but will carry over into 08-09
	North County Corridor Feasibility Study	110,936		(110,936)	Study completed in 07-08
	North County Corridor Project Study Report	150,000		(150,000)	Study completed in 07-08
	Office Space Reconfiguration	5,000		(5,000)	
	Plan Implementation Project Team	3,000	3,000	0	
	Policy Board Planning Session	17,240		(17,240)	Special policy board planning sessions held in 07-08
	Route 132 Connectivity Feasibility Study	373,555		(373,555)	Completed in 07-08
	Route 132 West Project Study Report	0	1,500,000	1,500,000	New project study report to be conducted in 08-09
	Route 132 West Safety Billboard	5,500	6,000	500	
	Route 219 Project Management Consultant	115,129	63,000	(52,129)	Estimated additional \$63,000 in FY 08-09 to complete tasks
	Short-haul Intermodal Facilities Study	0	6,854	6,854	
	RTP Financial Plan Update	306,000		(306,000)	Encumbered in 07-08, but will carry over into 08-09
	Temporary Help	16,605	10,000	(6,605)	
	Temporary Help Interwest Consultant Services	200,000	60,000	(140,000)	Anticipated that less consultant services will be required in 08-09
	Traffic Modeling Support	10,000	10,000	0	
	Valleywide Air Quality Coordinator	13,380	13,380	0	
	Valleywide Air Quality Coordinator Oversight	5,400	5,400	0	
	Local Air Quality Assistance	0	20,000	20,000	Consultant to provide air quality conformity services
	Valleywide Air Quality Policy Services	3,345	3,345	0	
	<b>TOTAL CONTRACTS</b>	<b>2,125,039</b>	<b>2,015,479</b>	<b>(109,560)</b>	
	<b>OPERATING TRANSFER OUT - SR 132 Infill</b>	<b>84,380</b>	<b>0</b>	<b>(84,380)</b>	One-time transfer for SR 132 east infill project
	<b>ADJUSTMENT FOR FY 06-07 OVERHEAD RECAPTURE</b>	<b>0</b>	<b>(69,539)</b>	<b>(69,539)</b>	<FY 06/07 Audited Financials Page 35>
	<b>BUDGET SUBTOTAL</b>	<b>3,728,504</b>	<b>3,938,434</b>	<b>209,930</b>	
<b>90000</b>	<b>CONTINGENCIES</b>	<b>28,450</b>	<b>50,000</b>	<b>21,550</b>	\$21,550 used in 07-08: 5,000 office reconfig, \$4,000 security
<b>92400</b>	<b>EXIGENCIES</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>	door, \$12,550 phone system
	<b>TOTAL BUDGET</b>	<b>3,771,954</b>	<b>4,003,434</b>	<b>231,480</b>	

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**STANISLAUS COUNCIL OF GOVERNMENTS  
RESOLUTION 07-44  
A RESOLUTION ADOPTING  
THE 2008/09 LINE ITEM BUDGET**

WHEREAS, the Stanislaus Council of Governments (StanCOG) is the designated Regional Transportation Planning Agency (RTPA), the designated Metropolitan Planning Organization (MPO) and the designated Council of Governments for Stanislaus County, and

WHEREAS, StanCOG has prepared a proposed line item budget for fiscal year 2008/09 on Schedule 1 for expenditures and Schedule 2 for revenues.

NOW, THEREFORE, BE IT RESOLVED, that Stanislaus Council of Governments adopts the fiscal year 2008/09 budget as reflected in schedules 1 and 2 of the staff report dated May 29, 2008.

BE IT FURTHER RESOLVED, that the Executive Director, or the Policy Board Chair of StanCOG, or his/her designee, is hereby authorized and empowered to execute in the name of the Stanislaus Council of Governments all necessary applications, contracts and agreements and amendments thereto to implement and carry out the purposes specified in this resolution.

The foregoing Resolution was introduced at a regular meeting of the Stanislaus Council of Governments on the 11th day of June, 2008. A motion was made and seconded to adopt the foregoing Resolution. Motion carried and the Resolution was adopted.

MEETING DATE: June 11, 2008

ATTEST:

  
\_\_\_\_\_  
JOHN G. FANTAZIA, CHAIR

  
\_\_\_\_\_  
VINCENT J. HARRIS, EXECUTIVE DIRECTOR

Attachments: 2

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